Summary

In a quiet week for economic data, the ISM services index rose further into expansion, jobless claims improved, while the survey of senior bank loan officers showed continued tightening of conditions into the 4th quarter of last year.

Stocks ended positively around most of the globe last week, led by a strength in the U.S. and China. However, bonds lost ground as longer-term interest rates ticked higher. Commodities ended slightly higher, driven by a rebound in crude oil and Middle East risks.

Economic Notes

(+) The **ISM Services/Non-Manufacturing Index** for January rose by 2.9 points to 53.4, moving even more solidly into expansion, and surpassing the 52.0 median forecast. Improvement was seen across all key metrics—new orders rose several points further into expansion at 55, while employment rose sharply, moving from contraction to expansion. At the same time, prices paid also ticked higher, from shipping issues and costs in the Red Sea, based on anecdotal comments. Business activity was little changed in the expansionary mid-50's as well. This was a positive report, reiterating strength in the larger services side of the economy, which continues to grow along with reinforcing the 'soft landing' narrative.

(+) **Initial jobless claims** for the Feb. 3 ending week fell by -9k to 218k, below the 220k median forecast. Continuing claims for the Jan. 27 week fell by -23k to 1.871 mil., just below the 1.875 mil. expected. Initial claims were mixed by state, with no clear pattern of layoff, but likely containing some weather-related component.

(0/-) The Federal Reserve **Senior Loan Officer Opinion Survey** for January showed a continued tight environment for bank lending in Q4-2023, although that tightening happened at a slower pace than in Q3. While lending standards tightened, demand for commercial/industrial loans also fell back, as did demand for commercial real estate loans. These same tendencies carried through to the consumer side, with tighter standards and weaker demand. The exception was residential mortgages, where standards were little changed, but demand fell back a bit. For consumer lending assumptions looking ahead in 2024, banks expected loan demand to strengthen, but loan quality to deteriorate. The majority of banks noted a worsening economic outlook as the primary reason for the tighter standards, as opposed to reduced risk tolerance, which is a positive compared to the bank balance sheet stresses of almost a year ago.

Market Notes

Period ending 2/9/2024	**1 Week %**	**YTD %**
DJIA	0.09	2.74
S&P 500	1.40	5.52
NASDAQ	2.34	6.58
Russell 2000	2.44	-0.76
MSCI-EAFE	0.11	-0.43
MSCI-EM	0.75	-2.70
Bloomberg U.S. Aggregate	-0.82	-1.47

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2023	5.40	4.23	3.84	3.88	4.03
2/2/2024	5.43	4.36	3.99	4.03	4.22
2/9/2024	5.44	4.48	4.14	4.17	4.37

U.S. stocks saw continued gains last week, with the S&P 500 exceeding the milestone 5000 level. These tend to result in enhanced media attention on stocks, sometimes related to a 'fear of missing out' effect by investors. We are also reminded that, as stocks have tended to move upward over the long haul, new all-time highs are not necessarily cautionary signals.

Sector results were led by technology, up over 3%, followed by consumer discretionary, health care, and industrials. Defensive sectors consumer staples and utilities each lost over a percent on the week, with the latter likely along with higher interest rates. However, real estate saw minor gains for the week. From an earnings perspective, per FactSet, about two-thirds of firms in the S&P 500 have now reported results, with the blended year-over-year earnings gain now having improved to 2.9% (compared to a slight negative expectation at the start of earnings season).

Foreign stocks were mixed, with minimal gains in Europe and Japan offset by a decline in the U.K. As in the U.S., ECB members talked down the idea of early-year rate cuts, along with improving economic data, dampening sentiment somewhat. Emerging markets saw stronger gains, due to a rally in China. It appears that the Chinese government is putting together a market stabilization fund, which has been taken positively by investors, as markets prepare to close for a week in celebration of the Lunar New Year. While a bullish indicator for equity markets there, structural problems remain, notably in real estate, which will require more time and possible intervention. An ongoing curiosity has been the minimal government support up until this point, albeit there are a variety of possible stimulus targets. Price deflation has become more persistent as well, which is a mixed bag for consumers, as it tends to accompany slower growth. Discounted valuations reflect the myriad of concerns there.

Bonds lost ground for the week, along with yields rising across the U.S. Treasury curve, seemingly related to Fed Chair Powell's earlier national TV interview comments hinting at no immediate rate cuts. The Treasury auction earlier in the week, of over $40 bil. in 10-year notes, saw greater demand than expected from investors, resulting in no offsetting spike in yields. Bucking the trend were high yield and floating rate bank loans, which saw minor gains. Foreign bonds were down, along with a stronger U.S. dollar.

Commodity group results included a gain in the energy sector, offset by a decline of a few percent in industrial metals. Crude oil rose 6% last week to $77/barrel, which appeared tied to Israel's rejection of a ceasefire offer, and a re-escalation in Gaza military activity—the re-addition of some geopolitical risk premium that had fallen away in prior weeks. On the other hand, natural gas prices fell -10% (and down over -40% over the last three months), related to both weather and pressure to end the Biden administration's gas exploration moratorium, which would have a positive impact on supply.

Have a good week.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.